

State Dept. review completed

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POTENTIAL

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June 1954

IMPENDING POLITICAL CRISIS IN IRAN

I. Shah Seriously Considering Replacement of Zahedi.

A. Shah's support of present government has been haphazard and sporadic.

1. Recurrent disagreements in past months between shah and Prime Minister Zahedi over military matters and patronage.

B. Shah characteristically fears a strong prime minister.

C. Shah asked Ambassador Henderson on 27 May whether:

(1) US and Britain would welcome change in prime minister, and (2) whether such a change would make oil settlement easier.

D. Henderson assured shah that Zahedi has US confidence and that a change of prime ministers now would be extremely damaging to oil negotiations.

E. British ambassador Stevens went along with Henderson's support of Zahedi.

F. Shah informed Henderson he would retain Zahedi in interest

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of oil settlement.

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G. Shah's reaction to US endorsement of Zahedi may redound unfavorably on Zahedi. His intention to remove Zahedi ultimately, may have been strengthened thereby.

II. Shah Has Repeatedly Proposed Zahedi be Removed, usually charging flagrant corruption to his regime, despite assurances to Henderson.

A. Corruption endemic in Iran; nevertheless, convenient removal instrument.

B. Zahedi's past record not completely clean and considerable dishonesty exists in his government.

III. Spate Independent Inquiries Against Zahedi--most with Majlis ties and some claiming shah's support.

A. A group of conspirators under retired general Arfa includes Chief of Staff Batmangelitch, some of his former subordinates long active in anti-Zahedi intrigue, and Mullah Kashani's son, now a Majlis deputy. Dr. Mozafer Baqai and his small leftist Workers Party co-operating closely.

B. Senator Manuchehr Eqbal is member of Arfa cabal; recently

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reported seeking help of Princess Ashraf, among others.

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He reportedly has been shah's first choice for prime minister and meets shah's requirements more than other aspirants.

C. Reformist group--Roshanfekr--seeking support for former Bazmara lieutenant, Sajadi, through anti-corruption Majlis speeches. Hoseyn Makki believed writing speeches.

D. Current interruption oil negotiations has encouraged National Resistance Movement--now composed of Iran Party and other former pro-Mossadeq elements--to agitate for Alayar Saleh, former ambassador to US and one-time Mossadeq cabinet member.

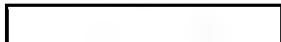
E. Tudeh actively supporting the Roshanfekr group and Resistance Movement campaigns; however, will lend weight wherever it can damage Zahedi government.

IV. Zahedi Claims Awareness of Intrigues; says he controls situation.

A. Shah's attacks on corruption theme, however, put Zahedi on defensive and he agreed sacrifice Panahi, chief of Seven-Year Plan Organization.

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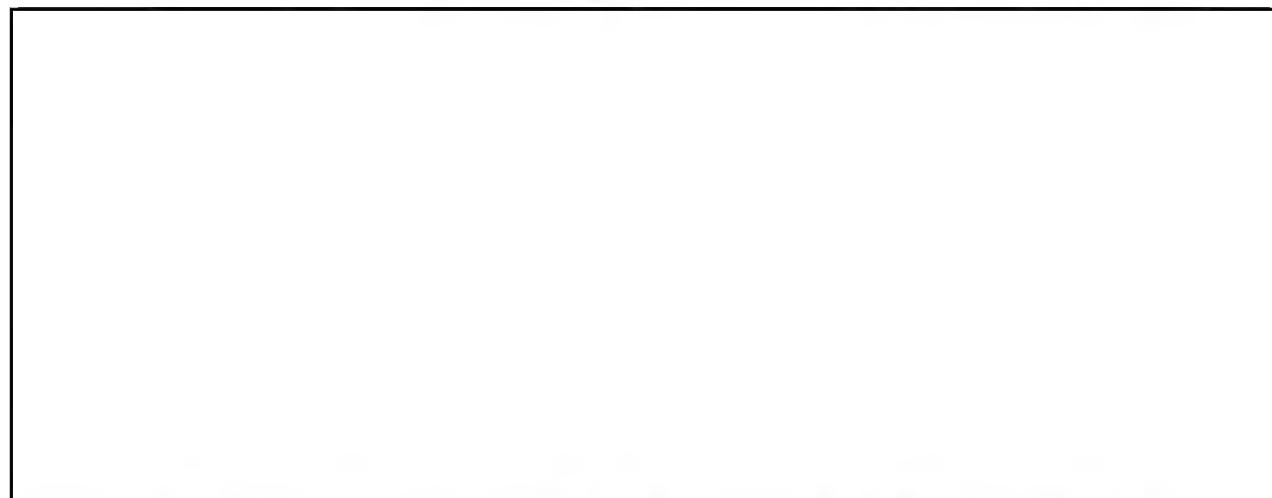
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D. General Bakhtiar, military governor of Tehran, doubts
the government can last until oil settlement.

E. Removal of Zahedi Would Probably Preclude any Oil Settlement
on Presently Proposed Lines. It might result in a complete
breakdown of negotiations.

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